

## Retiree Activities Office

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### **RAO Newsletter # 96 - February 15, 2011 - Why Did My Tax Withholding Go Up?**

Many MOAA members have called to ask why federal income tax withholding on their military retired pay increased this year.

It's not that there was some nefarious new tax hike, or that you fell through some crack in the recent tax cut extension.

It's because the two-year Making Work Pay (MWP) tax relief program enacted in 2009 expired at the end of 2010. MWP cut tax withholding rates from checks in 2009 and 2010. The program wasn't extended to 2011 so the tax tables reverted back to the old higher levels.

The MWP program was designed to act as a special stimulus payment to help kick-start the country out of recession by putting some extra money in citizens' hands right away. Technically, the MWP provision was intended only to apply to qualifying taxpayers still earning wages. However since DFAS uses the same tax tables and pay systems for retired pay as it does for active duty pay, the system didn't discriminate between retired pay and wages.

This doesn't mean that you owe more or are paying higher taxes - it's just that DFAS has returned to withholding the pre-stimulus amount from each deposit. If this results in too much money being withheld, you will receive any overpaid amount via a tax refund.

If the change causes you some problem, you can submit an IRS form W-4 to DFAS or your pay agency to change your withholding amount. Changes can also be made to DFAS using the on-line 'My Pay' system.

Just remember that changing your withholding won't change your actual 2011 tax liability. If you have too little withheld, you'll have to pony up the rest (and any applicable penalty, if you under-withheld too much) when you file your 2011 federal income taxes. (Source MOAA)